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National Energy Board



## Reasons for Decision

Westcoast Energy Inc.

RH-1-96



March 1996

Tolls



## National Energy Board

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### Reasons for Decision

In the Matter of

**Westcoast Energy Inc.**

Application dated 8 December 1995, as amended, for new tolls effective 1 January 1996

**RH-1-96**

**March 1996**

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represented by the National Energy Board

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## **Recital**

IN THE MATTER OF the *National Energy Board Act* and the Regulations made thereunder; and

IN THE MATTER OF an application by Westcoast Energy Inc. for certain orders respecting interim and final tolls for 1996 pursuant to subsection 19(2) and Part IV of the Act; and

IN THE MATTER OF the National Energy Board Hearing Order No. RH-1-96.

BEFORE:

R.L. Andrew                      Presiding Member

R. Priddle                      Member

R. Illing                      Member



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## **Chapter 1**

# **Background and Application**

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By application dated 8 December 1995, Westcoast Energy Inc. ("Westcoast" or "the Company") applied to the National Energy Board ("NEB" or "the Board") under subsection 19(2) and Part IV of the *National Energy Board Act* ("Act") for an order or orders respecting interim and final tolls for 1996.

On 21 December 1995, the Board invited interested persons to comment on the merits of Westcoast's request to charge the tolls proposed in its application on an interim basis, effective 1 January 1996. The Board received a joint submission from the Council of Forest Industries, Methanex Corporation and Cominco Ltd. ("COFI et al"), BC Gas Utilities Ltd. ("BC Gas"), the Canadian Association of Petroleum Producers ("CAPP"), the Export Users Group ("EUG") and CanWest Gas Supply Inc. ("CanWest"). The Board received individual comments from the Ministry of Energy, Mines and Petroleum Resources for the Province of British Columbia ("the Province"), BC Gas, EUG and Mobil Natural Gas Canada Ltd. As well, the Board received reply comments from Westcoast.

On 12 January 1996, having considered the above submission and comments, the Board issued interim toll order TGI-1-96, which allowed Westcoast to charge, on an interim basis effective 1 January 1996, tolls yielding an increase of nine percent over 1995 tolls for a typical service movement to the export point.

On 12 January 1996, while recognizing that the Company was negotiating with certain parties to reach a settlement for 1996 tolls, the Board issued Hearing Order RH-1-96 which set down Westcoast's application for a hearing commencing 11 March 1996 in Vancouver, British Columbia, and established the Directions on Procedure and the List of Issues, which is attached to these Reasons for Decision as Appendix II.

On 18 January 1996, Westcoast advised the Board that it had reached an agreement in principle on a settlement with CAPP, COFI et al, BC Gas, EUG, CanWest and the Province. On 29 January 1996, Westcoast requested that the Board amend the interim tolls to reflect the terms of the settlement as well as the impact of not proceeding with its 1996 mainline looping projects. The settlement and the removal of these projects resulted in a revenue requirement which would yield an increase of approximately 7.8% over 1995 tolls for a typical service movement to the export point. On 6 February 1996, the Board decided to amend the interim tolls as requested by the Company and issued order AO-1-TGI-1-96 giving effect to this decision.

Also, on 6 February 1996, the Board decided to adopt a written procedure to consider the settlement. It invited interested persons to comment on the settlement and to indicate whether they supported or opposed the settlement. Westcoast was allowed to submit reply comments. The Board received comments in support of the settlement from COFI et al, CAPP, BC Gas and CanWest, and received no comments against the settlement. By letter dated 26 February 1996, Westcoast stated that it had no reply comments.

Finally, on 5 March 1996, the Board announced that it was not necessary to convene an oral public hearing to consider Westcoast's application for 1996 tolls and cancelled the hearing scheduled to begin on 11 March 1996.

## Chapter 2

# Settlement on 1996 Tolls

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### Terms of the Settlement

The principal terms of the settlement for 1996 tolls between Westcoast and CAPP, COFI et al, BC Gas, EUG, CanWest and the Province are as follows:

- (a) Reduction of the 1996 revenue requirement from the applied-for amount of \$552.7 million to \$509.7 million;
- (b) Lump sum reduction of the Operations and Maintenance ("O & M") budget by approximately \$4.0 million;
- (c) Withdrawal of the application to increase depreciation rates;
- (d) Reduction of the capital program by approximately \$26 million and an associated reduction in rate base;

In addition, the parties agreed that the usual process for reviewing Westcoast's 1996 section 58 application dated 27 November 1995 should continue and that the 1996 revenue requirement would not be affected by the Board's decision on that application under Part III of the NEB Act nor by any decisions of the Board on the amendments to the Company's application;

- (e) Revision of the unfunded debt cost rate from 8.36% to 6.85% to reflect the updating of the forecast timing of its 1996 long term debt issues;
- (f) Withdrawal of the Company's application to recover approximately \$8.5 million under the line item "Transportation by Others". This item reflects the costs associated with providing service through the Helmet/Peggo Pipeline facilities. The parties agreed that these costs should be recorded in a deferral account, with the balance to be disposed of in a future proceeding; and
- (g) Agreement not to seek amendments to the renewal provisions of the General Terms and Conditions for 1996.

Westcoast stated that, after the settlement was reached, it determined that it was not necessary to proceed with its planned 1996 mainline looping projects. It pointed out that the removal of these projects from the 1996 Rate Base would result in adjustments to a number of cost of service items and to the allocation units and that parties to the settlement had agreed to these adjustments and the resulting impact on tolls.

Westcoast also stated that members of the Toll and Tariff Task force reviewed the terms of the settlement at their meeting of 25 January 1996 and that no party raised any objections.

## **The Board's Negotiated Settlement Guidelines**

The Board examined the settlement in the light of its Guidelines for Negotiated Settlements of Traffic, Tolls and Tariffs, dated 23 August 1994. In particular, the Board was guided by the following provisions:

- All parties having an interest in a pipeline's traffic, tolls and tariffs should have a fair opportunity to participate and have their interests recognized and appropriately weighted in a negotiated settlement. The settlement process should be open and all interested parties should be invited to participate in the actual settlement negotiations.
- Upon filing of information related to the resolution of individual toll design, tariff or other matters, interested parties would be provided with an opportunity to comment on each resolution. Resolutions that were not opposed by any party would normally be accepted by the Board.
- When presented with a settlement package, the Board will either accept or reject the package in its entirety.

### ***Views of the Board***

The Board is satisfied that all parties with an interest in the tolls of Westcoast for 1996 have had the opportunity to inform themselves on the merits of the settlement and to comment on Westcoast's application and the settlement itself.

### **Decision**

**The Board approves the settlement as filed.**

## **Chapter 3**

# **Revenue Requirement and Rate Base for 1996**

---

### **3.1 Revenue Requirement**

As shown in Table 3-1, Westcoast originally applied for a revenue requirement of \$552.7 million for 1996, but revised the amount to \$509.7 million reflecting the settlement reached on 1996 tolls.

### **3.2 Rate Base**

As shown in Table 3-2, Westcoast originally applied for a rate base amount of \$2,148.1 million for 1996, but revised the amount to \$2,136.4 million reflecting the settlement for 1996 tolls.

### **3.3 Capital Structure and Cost of Capital**

Westcoast applied for a rate of return on rate base of 10.26% for the 1996 test year. It incorporated a deemed common equity component of 35% and the rate of return on equity of 11.25% that the Board approved for 1996 according to the adjustment mechanism contained in the RH-2-94 Multi-pipeline Cost of Capital decision. It also incorporated the applied-for cost rate for unfunded debt of 6.85% as agreed to by the parties to the settlement on 1996 tolls.

### **3.4 Continuation of Existing Deferral Accounts**

For the 1996 test year, Westcoast applied to maintain for accounting and toll-making purposes the cost of service and revenue deferral accounts listed below, each of which had been previously approved by the Board.

#### Cost of Service Deferral Accounts

- Property Taxes
- Taxes related to Fuel Consumption
- Federal Surtaxes and Income Taxes
- Provincial Surtaxes and Income Taxes
- Corporation Capital Tax
- Foreign Exchange
- NEB Cost Recovery
- Zone 2 Demand Charge Credits
- Pressure Vessel Inspection and Repairs
- Swing Gas

#### Revenue Deferral Accounts

- Contract Demand Volumes
- Interruptible Revenue
- Stabilization and Fractionation Service Revenue
- Fuel Gas Pipeline Revenue
- Zone 1 and Zone 3 Over Delivery Charges

#### **Decision**

**The Board approves the continuation of the cost of service and revenue deferral accounts listed above for the 1996 test year. The Board will consider the disposition of the year-end balances in these accounts in a future toll proceeding.**

### **3.5 Disposition of Existing Deferral Account Balances**

In the RH-5-94 Reasons for Decision, the Board authorized certain cost of service and revenue deferral accounts for the 1995 test year. In this proceeding, Westcoast provided forecast balances in these deferral accounts as at 31 December 1995, and proposed to credit or debit these balances to the 1996 cost of service of the appropriate toll zones and functions. Similarly, regarding any differences between forecast and actual deferral account balances for 1995, Westcoast applied for authorization to record such differences in the respective cost of service and revenue deferral accounts authorized in 1996.

No comments were submitted on the proposed disposition.

#### **Decision**

**The Board approves the disposition of the forecast balances as at 31 December 1995 in the existing deferral accounts and the recording of differences between the forecast and actual account balances for 1995, as proposed by Westcoast.**

### **3.6 Deferral Account for Transportation by Others**

In a separate application under sections 52 and 74 of the Act, Westcoast applied for a certificate to own and operate certain pipeline facilities located in the Helmet and Peggo areas of Northeast British Columbia. These facilities are currently owned by 3181782 Canada Inc., a wholly owned subsidiary of Westcoast. The Company explained that it has been providing transportation service through the Helmet/Peggo pipeline facilities since 1 January 1996 pursuant to a transportation agreement with 3181782 Canada Inc. In its original application, Westcoast applied to include, in its 1996 Cost of Service, the annual costs of owning and operating the Helmet/Peggo facilities in the amount of \$8.5 million, as shown in the line item "Transportation by Others".

As part of the settlement, however, Westcoast requested that these costs be recorded in a deferral account, along with carrying costs calculated at the approved rate of return on rate base.

#### **Decision**

**The Board approves the applied-for "Transportation by Others" deferral account for the 1996 test year.**

**Table 3-1**  
**1996 Test Year Applied-for and Approved**  
**Revenue Requirement**  
**(\$000)**

	1996 Applied-for <sup>1</sup>	Adjustments per settlement <sup>2</sup>	1996 Approved
O & M Expenses	147,234	(4,074)	143,160
Transportation by Others	8,471	(8,471)	-
NEB Cost Recovery	2,286	-	2,286
Depreciation	93,035	(28,440)	64,595
Amortization	445	-	445
Taxes Other Than Income Taxes	64,458	-	64,458
Misc. Operating Revenue	(800)	-	(800)
Insurance Deductibles	384	-	384
Foreign Exchange on Debt	2,027	-	2,027
Gas Substitution Costs	550	-	550
Gas Used in Operations	1	-	1
Income Tax Expense	12,204	(177)	12,027
Return on Rate Base	221,039	(1,840)	219,199
Deferrals	<u>1,324</u>	<u>-</u>	<u>1,324</u>
Revenue Requirement	<u>552,658</u>	<u>(43,002)</u>	<u>509,656</u>

1 Application dated 8 December 1995

2 Amended application dated 31 January 1996

Note: Totals may not add due to rounding

**Table 3-2**  
**1996 Test Year Applied-for and Approved**  
**Average Rate Base**  
**( $\$000$ )**

	1996 Applied-for <sup>1</sup>	Adjustments per settlement <sup>2</sup>	1996 Approved
Gas Plant in Service	2,999,543	(25,234)	2,974,309
Accumulated Depreciation	(839,229)	13,996	(825,233)
Net Plant in Service Adjustment	<u>3,694</u>	<u>(20)</u>	<u>3,674</u>
Net Plant in Service	2,164,008	(11,259)	2,152,749
Contributions in Aid of Construction	<u>(4,053)</u>	<u>-</u>	<u>(4,053)</u>
Plant Investment	2,159,956	(11,259)	2,148,696
Materials and Supplies	40,359	-	40,359
Line Pack Gas	5,106	-	5,106
Prepaid Expenses	3,918	51	3,969
Deferrals	662	-	662
Deferred Income Taxes	<u>(66,406)</u>	<u>-</u>	<u>(66,406)</u>
Average Rate Base Exclusive of Cash Working Capital	<u>2,143,595</u>	<u>(11,209)</u>	<u>2,132,386</u>
Cash Working Capital	4,497	(441)	4,056
Average Rate Base <sup>3</sup>	<u>2,148,092</u>	<u>(11,649)</u>	<u>2,136,443</u>

<sup>1</sup> Application dated 8 December 1995

<sup>2</sup> Amended application dated 31 January 1996

<sup>3</sup> Net of Alberta (Zone 5) Facilities

Note: Totals may not add due to rounding

## **Chapter 4**

# **Tolls and Tariff Matters**

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### **4.1 Approved Tolls**

As part of its amended application reflecting the terms of the settlement, Westcoast submitted revised tolls, which, at Westcoast's request, the Board made interim effective 1 January 1996.

#### *Views of the Board*

The Board is of the view that tolls based on the negotiated revenue requirement of \$509.7 million, the filed throughput and existing toll design are just and reasonable.

#### **Decision**

**The Board approves the applied-for tolls on a final basis effective 1 January 1996.**

### **4.2 Tariff Matters**

In its original application, Westcoast stated its intention to apply to the Board to amend the renewal provisions contained in its General Terms and Conditions. It also stated that it had advised the Toll and Tariff Task Force that it was considering alternatives to the existing provisions.

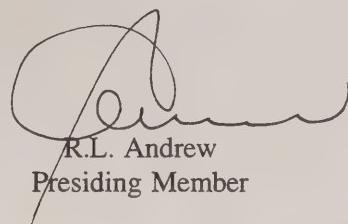
As part of its amended application reflecting the terms of the settlement, however, Westcoast agreed not to seek amendments to these provisions in 1996.

## Chapter 5

# Disposition

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The foregoing chapters, together with Order TG-4-96 (Appendix I), constitute our Decision and Reasons for Decision on matters considered in the RH-1-96 proceeding.

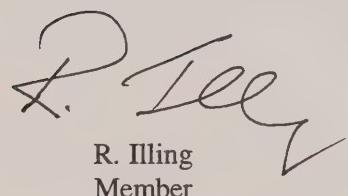


R.L. Andrew  
Presiding Member



R. Priddle

R. Priddle  
Member



R. Illing

R. Illing  
Member

Calgary, Alberta  
March 1996

## **Appendix I**

### **Order TG-4-96**

---

IN THE MATTER OF the *National Energy Board Act* ("the Act") and the Regulations made thereunder; and

IN THE MATTER OF an application dated 8 December 1995, as amended, by Westcoast Energy Inc. ("Westcoast") for approval of interim and final tolls pursuant to subsection 19(2) and Part IV of the Act, and filed with the National Energy Board ("the Board") under File No. 4200-W005-9.

BEFORE the Board on 21 March 1996.

AND WHEREAS Westcoast, by application dated 8 December 1995, as amended, applied to the Board for an order or orders under subsection 19(2) and Part IV of the Act fixing just and reasonable tolls that Westcoast may charge, effective 1 January 1996, for raw gas transmission, processing and residue gas transportation services that it provides

AND WHEREAS the Board, expecting that it would not render a final decision regarding Westcoast's tolls until sometime in the new year, issued Order TGI-1-96, which authorized Westcoast to charge, on an interim basis effective 1 January 1996, tolls that would yield an increase of nine percent over the 1995 approved tolls for a typical service movement from zone 1 to the export point of zone 4;

AND WHEREAS the Board approved an application by Westcoast to vary the tolls approved on an interim basis pursuant to Order TGI-1-96 to reflect the terms of a settlement respecting 1996 tolls that it reached with certain participants in Westcoast's hearings;

AND WHEREAS the Board issued Order AO-1-TGI-1-96 on 6 February 1996 authorizing Westcoast to charge, on an interim basis effective 1 January 1996, tolls that would yield an increase of 7.8% over the 1995 approved tolls for a typical service movement from zone 1 to the export point of zone 4;

AND WHEREAS the Board, having sought the comments of interested parties on whether they either accept or reject the settlement, only received comments in support of the settlement;

#### **IT IS ORDERED THAT:**

1. Westcoast shall charge on a final basis, effective 1 January 1996, tolls authorized in Order AO-1-TGI-1-96 and attached herewith. Order AO-1-TGI-1-96 is hereby made final by this Order.

2. Those provisions of Westcoast's tolls and tariffs, or any portion thereof, that are contrary to any provision of the Act, the Board's RH-1-96 Reasons for Decision dated March 1996 or any Order of the Board including this Order, are hereby disallowed.

NATIONAL ENERGY BOARD

J.S. Richardson  
Secretary

Attach.

**Table A1-1**  
**Westcoast Energy Inc.**  
**Firm Tolls Effective 1 January 1996**

Service	Demand (\$/10 <sup>3</sup> m <sup>3</sup> /Mo)	Commodity (\$/10 <sup>3</sup> m <sup>3</sup> )
Raw Gas Transmission	\$162.99	\$0.000
Processing		
Liquids Recovery	\$671.69	\$0.000
Liquids Stabilization & Fractionation	\$0.00	\$9.579
Transportation North		
Shorthaul	\$5.24	\$0.000
Longhaul	\$75.44	\$0.000
Transportation South		
BC Gas Inc. - Inland Division	\$130.05	\$0.000
Pacific Northern Gas Ltd.	\$53.85	\$0.000
BC Gas Inc. - Lower Mainland Division	\$237.76	\$0.000
Export	\$238.03	\$0.000
Fuel Gas	\$1,021.80	\$0.000
Selected Treatment Tolls	Acid %	
	0%	\$140.44
	2%	\$159.60
	4%	\$180.95
	6%	\$204.74
	8%	\$231.18
	10%	\$260.51
	12%	\$292.94
	14%	\$328.70
	16%	\$368.01
	18%	\$411.11
	20%	\$458.20
	30%	\$747.05
	40%	\$1,050.22
	50%	\$1,353.40
Offline		
Offline Sales		
BC Gas Inc. - Fort Nelson	\$5.24	\$7.137
Peace River Transmission Co. Ltd.	\$5.24	\$7.137
Offline Service		
BC Gas Inc. - Fort Nelson	\$5.24	\$7.100
Centra Gas British Columbia Inc.	\$5.24	\$7.100
Peace River Transmission Co. Ltd.	\$5.24	\$7.100
PNG (N.E.) Ltd.	\$0.00	\$2.783

**Table A1-2**  
**Westcoast Energy Inc.**  
**Interruptible Tolls Effective 1 January 1996**

Service	(\$/10 <sup>3</sup> m <sup>3</sup> )	Winter 75% L.F.	Summer 100% L.F.
Raw Gas Transmission		\$7.125	\$5.344
Processing			
Liquids Recovery		\$29.363	\$22.023
Liquids Stabilization & Fractionation		\$9.579	\$9.579
Transportation North			
Shorthaul		\$0.229	\$0.172
Longhaul		\$3.298	\$2.473
Transportation South			
BC Gas Inc. - Inland Division		\$5.685	\$4.264
Pacific Northern Gas Ltd.		\$2.354	\$1.766
BC Gas Inc. - Lower Mainland Division		\$10.394	\$7.796
Export		\$10.406	\$7.804
Fuel Gas (@ 75% L.F.)		\$44.669	\$44.669
Selected Treatment Tolls	Acid %		
	0%	\$6.140	\$4.605
	2%	\$6.977	\$5.233
	4%	\$7.911	\$5.933
	6%	\$8.950	\$6.713
	8%	\$10.106	\$7.580
	10%	\$11.388	\$8.541
	12%	\$12.806	\$9.605
	14%	\$14.369	\$10.777
	16%	\$16.088	\$12.066
	18%	\$17.972	\$13.479
	20%	\$20.031	\$15.023
	30%	\$32.658	\$24.493
	40%	\$45.911	\$34.434
	50%	\$59.165	\$44.374
Transportation South - Import Backhaul			
BC Gas Inc. - Inland Division		\$4.720	\$3.540
Pacific Northern Gas Ltd.		\$8.051	\$6.039
BC Gas Inc. - Lower Mainland Division		\$0.012	\$0.009
Compressor Station No. 2		\$10.406	\$7.804

## **Appendix II**

### **List of Issues**

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This list is intended to assist all parties in defining the key issues to be addressed at the hearing. This will not preclude the Board from dealing with other issues which are normally raised by virtue of the Board's mandate pursuant to Part IV of the Act.

At the hearing, the Board will consider, *inter alia*, the following issues:

1. The appropriate rate base, throughput and cost of service for the 1996 test year.
2. The appropriate cost rate for funded and unfunded debt.
3. Whether the person-year utilization and the salary and wage increases proposed for the 1996 test year are appropriate.
4. Whether the allocation of expenditures among utility operating and maintenance expense, utility capital and non-utility is appropriate for the 1996 test year.
5. Whether the depreciation rates proposed by Westcoast are appropriate.
6. Whether adding a new cost of service line item, "Transportation by Others", is a reasonable approach to reflect the cost of owning and operating certain facilities purchased by certain party or parties related to Westcoast.
7. Whether incentive provisions should be included in the test year operating and maintenance expense forecast in order to encourage improvement in cost performance.



